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SUBJECT: THAI INVESTMENT SPENDING STIMULUS PACKAGE: 12 BILLION NOW,
12 BILLION LATER

REF: A) BANGKOK 384 (Additional Thai Government Measures) B)
BANGKOK 175 (Economic Stimulus Plan)

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11. (SBU) Summary. On June 22, the Thai government cleared a hurdle when a key element of its overarching plan to stimulate the Thai economy in light of the global economic crisis was approved. The Thai Parliament passed an emergency decree allowing the Royal Thai Government (RTG) to borrow approximately USD \$12 billion (400 billion baht) to finance "shovel-ready" investment projects, part of the RTG's broader USD \$43 billion investment spending plan focused largely on job-creating infrastructure projects. Cognizant that the planned borrowing will bump the Thai government up against its allowed debt-to-GDP ceiling, much of this first tranche of borrowing will go toward reducing the government deficit. Meanwhile, a related parliamentary bill requesting another USD \$12 billion will undergo debate in August. The Ministry of Finance anticipates generating over a million jobs and increasing growth 1.5 percent through the stimulus packages. End Summary.

12. (SBU) Comment: Prime Minister Abhisit won the first round in his proposed USD \$24 billion borrowing plan, but the victory could prove to be short-lived if projects that are supposed to be funded do not get off the ground quickly. While the private sector generally applauds the loans, the RTG must demonstrate the political will and perseverance to use the borrowed money effectively towards proposed projects, many of which have been languishing for years. Nevertheless, getting the stamp of approval for his stimulus package represents a significant achievement for Abhisit's coalition and demonstrates the Abhisit government is willing to take bold measures to show it is doing what it can to lessen Thailand's continuing economic woes. Debate over the second USD \$12 billion loan is expected to be more contentious. End Comment.

A Brief History of USD \$24 Billion

13. (SBU) The Thai Government cabinet initially approved a proposal to borrow USD \$24 billion on May 6 to raise capital, largely for investment spending and reducing the deficit. The money would finance an expected 2009 fiscal year budget deficit and be used towards job-creating investment projects that are part of a three-year investment spending plan to combat the global economic crisis. (Note: see reftels for additional measures the RTG has

taken to stimulate the economy to combat the affects of the global economic crisis. End note). The proposal was split into two equal parts: an emergency decree covering approximately USD \$12 billion and a parliamentary bill covering an additional USD \$12 billion. By submitting part of the proposal as an emergency decree, parliamentary debate was abbreviated and the decrees subject to a strict up or down vote according to the Thai constitution (similar to U.S. "fast track" legislation). Meanwhile, the parliamentary bill portion will undergo full debate and review in the Thai parliament.

14. (SBU) The pro-Thaksin Puea Thai Party challenged the emergency decree on the grounds that the economic situation did not constitute an "emergency" and, according to section 184 of the Thai Constitution, the use of an executive decree was not warranted. The issue was subsequently submitted to the Constitutional Court, which unanimously ruled on June 3 that the decree was constitutional and necessary for "economic security." The emergency decree was overwhelmingly passed by the lower house of parliament on June 15. Subsequently, the senate, the upper house of the Thai Parliament, endorsed the decree by a vote of 69 to 48 with 11 abstentions on June 22. Media reports indicated that the senate debated the bill for several hours and passage came only after Prime Minister Abhisit cut short an official trip to Singapore to lobby senators.

15. (SBU) The Thai government is seeking authorization to borrow a second tranche of funds (also approximately USD 12 billion) through a parliamentary bill. The lower house of the Thai parliament already passed the bill on June 17. The bill will next be taken up by the senate at an ordinary session in August (unless an extraordinary session is convened before then).

Where the Money Comes From

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16. (SBU) Of the USD \$12 billion authorized, funding will initially come from the issuance of up to USD \$1.5 billion worth of government savings bonds that will mature in five years. Press reports indicate the bonds will yield 3 percent the first two years; 4 percent the third year; and 5 percent the fifth year. The RTG believes these rates are attractive and competitive against fixed-deposit rates at commercial banks that generally yield lower interest. The first bonds will go on sale in mid-July. According to the RTG, senior citizens will be targeted for the savings bonds (about USD \$1 billion of the bonds will be reserved for citizens over 60). The Finance Ministry's Public Debt Management Office (PMDO) will be the primary issuing agency. After the initial bond issuance, the RTG will determine whether further borrowing will be necessary. If so, the RTG will likely issue more bonds or borrow from local financial institutions.

"Stimulus Plan 2" Investment Spending

17. (SBU) Up to half of the USD \$12 billion raised by the emergency decree will go towards reducing the deficit created by a tax revenue shortfall as a result of the economic downturn. (Note: The Thai cabinet has voluntarily imposed a cap on the deficit to GDP ratio at fifty percent. End Note). What remains will largely go towards "shovel-ready" projects that are part of the RTG's three-year, USD \$45 billion investment spending plan, known as "stimulus plan 2" (or SP2), covering 2010-2012. According to the RTG, about \$35 billion of the projects in SP2 are "shovel-ready." The Ministry of Finance told the press that they expect the plan's total expected investment projects would boost economic growth 1.5 percent and create over a million jobs.

18. (SBU) SP2 involves approximately USD \$45 billion or Baht 1.43 trillion worth of investment projects (reportedly about 6,000 projects that range in size and budget) designed to create jobs. Should it require additional borrowing to cover investment project costs not covered by the government's budgets or domestic borrowing, the RTG is considering borrowing from off-shore sources (ref b). Offshore funding would be subject to approval from the Thai

Parliament. Public private partnerships are also being sought to fund projects.

¶9. (SBU) The RTG anticipates formally beginning funding projects in the next fiscal year in October, although many projects are already underway. According to the Ministry of Finance, SP2's USD \$45 billion in investment projects are broken down as follows:

Infrastructure development	(72.8 percent of total)
Farm irrigation and water supply	(14.7 percent)
Increasing income and quality of life	(6.4 percent)
Education	(3.8 percent)
Developing creative economy	(1.3 percent)
Healthcare	(0.6 percent)
Tourism	(0.4 percent)

¶10. (SBU) Infrastructure projects include expanding the mass-transit system; developing highways and roads; creating a dual-track rail system on the eastern seaboard; water transportation improvements; and telecommunications projects. Some of these projects have been in gestation for long periods, dating to the Thaksin period, when large infrastructure projects were commonly referred to as "megaprojects".

Private Perspectives

¶11. (SBU) The private sector has generally applauded this next step in the Thai government's overall economic stimulus package. Supavud Saicheua, Managing Director at a large securities firm, told econoff July 23 that the RTG "had to do something" to shore up the Thai economy. Supavud believes that SP2 could conceivably boost GDP since the RTG's planned USD \$45 billion in spending over three years amounts to about 1.5 percent of GDP annually. However, implementing the projects in a timely fashion will require political will and perseverance, according to Supavud. Some of the proposed projects have been on the books for years; some have been seemingly stuck in the "feasibility study" phase indefinitely. Supavud believes the RTG will be much more successful in implementing smaller projects in SP2 as opposed to large "megaprojects". He noted that many of the

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planned projects are "not spectacular", but things the government would be doing anyway, such as road maintenance and expansion, or digging wells. These projects, he suggested, stand the best chance of being successfully completed.

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